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Oh, give them a home ...

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The Blitts want to help their daughter and her fiancé buy their first house. But withtheir own retirement looming, how generous can they be?

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It's hard to enjoy financial freedom when your kids are struggling to get by. Just ask Kevin and Linda Blitt. The Ottawa suburbanites, 52 and 48 respectively, earn a household income of $155,000, and have amassed a net worth of more than $850,000. After decades of diligent saving and investing, they're eight years from retirement, and just two years from paying off their mortgage. When they hit that milestone, their expenses will plummet, and the Blitts figure they'll have more freed-up cash than they know what to do with.

Compare that to the financial problem facing their 27-year-old daughter, Jennifer, and her fiancé, Bill. The young couple is planning to marry in six months and, within a couple of years, start their own family. Before long, they'll want to move out of their cramped, eighth-floor apartment and buy their first home. Unfortunately, they won't be able to do it on their own. With a combined annual income of $80,000 and zero savings, they simple don't have the means to qualify for the $200,000 mortgage they'll need to get into a starter home.

None of which constitutes an emergency - at least not until you consider Rover. That would be Jennifer's dog, a 13-year-old beagle who, now in his later years, has become arthritic and incontinent. As a result, when Rover has to "go," it can be nearly impossible to get him out of the apartment, onto an elevator and outside in a timely fashion. "You know what happens when pets get older," says Kevin. "He doesn't have full control of his bodily functions."

Listening to Jennifer and Bill stress about the wedding, their cramped apartment and their Rover-related issues, the Blitts can't help but feel a strong parental responsibility. They know that their daughter and future son-in-law, on their own, are years away from buying a house. But with Kevin and Linda's help - in the form of a wedding present, loan or some combination thereof - the kids could be in a new home within the year.

With their mortgage winding down, the Blitts feel they can easily afford to lend Jennifer and Bill enough to cover a down payment, but they're worried about potential tax implications, not to mention the family strife that can result from loans between family members. After all, the Blitts can't afford to wait forever to get their money back - and probably no longer than eight years, when they plan to retire - but they don't want to be pestering their daughter and son-in-law for repayment. Complicating matters, the Blitts have a 23-year-old daughter who may come looking for a similar deal within a few years.

Their worries aside, however, Kevin and Linda are determined to help Jennifer and Bill get into a home, and they've come up with three ideas: Their first involves giving their daughter a $20,000 down payment as wedding gift, then co-signing a mortgage, which would allow Bill and Jennifer to qualify for $180,000 in financing.

The Blitts' second idea would keep the property in their own name. Instead of co-signing the mortgage, Kevin and Linda would buy the home themselves, with the same $20,000 down payment, and then rent it out to Jennifer and Bill, passing on the mortgage expenses to them. The Blitts would sell the house when the kids decided to upgrade, handing over any built-up equity - after capital gains taxes - to them as a gift.

The third idea is the simplest, but also the most expensive. The Blitts could give Jennifer and Bill $20,000 and then lend them another $20,000. With a $40,000 down payment, Jennifer and Bill would qualify for the remaining $160,000 mortgage they'd need. "I feel less comfortable about that one," says Kevin, who worries that Jennifer and Bill wouldn't be able to repay their loan in time for Kevin and Linda's retirement. On the other hand, the Blitts' first two courses of action may carry risks they're unaware of. "I'm not leaning any way right now," he says. "I just want to know which is the preferred option."

Should he and Linda either: (a) co-sign the mortgage; (b) buy a home and rent it out to the kids; or (c) bite the bullet and lend their daughter and future son-in-law enough to buy their home?

WHAT THE EXPERTS SAY

If Kevin and Linda feel queasy about handing up to $40,000 to their daughter - be it in the form of gifts or loans - they have every right, says Margaret Cameron, an Ottawa-based financial planner. Putting that much money between themselves and their daughter would force both parties to bite off more than they can chew, and potentially lead to family strife. "I would be a little concerned about their retirement if they were giving away this much money," says Cameron. Whereas the Blitts can hardly afford to wait a decade or more for repayment - especially if their 23-year-old daughter asks for the same deal - Jennifer and Bill would find it nearly impossible to pay them back quickly enough, while they deal with growing household and family expenses. "It just seems to me that it's going to be tough for them to afford the mortgage, plus the property taxes, plus the utilities, maintenance repairs - and the loan payments."

Marc Lamontagne, also a financial planner in Ottawa, concurs. The euphoria related to paying off a mortgage, he says, can often lead to a false sense of financial security. With their mortgage payments nearing an end, Kevin and Linda may feel flush with cash, but Lamontagne stresses that the Blitts aren't finished saving. "I just think that they are at a real crucial time in their lives," he says. "They are just about to pay off their mortgage, which is a really big deal. So this is when they can start to accumulate some assets." In fact, once the mortgage payments end, Lamontagne says the Blitts will probably need to redirect the same amount to savings, rather than luxuries or family gifts.

That being said, Lamontagne believes the Blitts may be able to afford to help the kids with a gift and loan package worth $40,000 - if they take advantage of the federal Home Buyers' Plan (HBP), which allows first-time home buyers to borrow RRSP funds tax-free for up to 15 years toward the purchase of a house. Here's how Lamontagne's plan would work: Kevin and Linda would give the kids $20,000 as a wedding gift (such gifts are tax free in certain

cases), then lend them another $20,000. Bill and Jennifer would then deposit $20,000 each into an RRSP and, 90 days later, withdraw the money under the HBP. At the end of the year, they would be entitled to a tax refund worth about $8,000, which if they handed over to Kevin and Linda, would represent 40% of their debt to them - leaving the kids with just $12,000 to pay back.

If that still sounds like too much debt between family members, Cameron offers an alternative. Instead of lending money or co-signing the mortgage - which would put the Blitts on the hook should Jennifer and Bill find themselves unable to pay - Kevin and Linda should consider a variation on their second plan: They could buy a property and rent it to the kids at a favourable rate, but without any pretense of passing on the home equity once it's sold. The Blitts could even afford to rent the property at below cost: As long as the rent is "fair market" - in other words, reasonable given the neighbourhood - Kevin could deduct any shortfall from his income and save on taxes.

It may not seem as generous as the Blitts had intended, but Cameron says that Kevin and Linda need to reconsider the issue. Bill and Jennifer are young, and their capacity to afford a mortgage will grow with time. They just can't go it alone right now. And "there's nothing wrong with 27-year-olds renting a house," Cameron says, especially if they're getting a deal from their parents.

In this scenario, the Blitts would be giving Bill and Jennifer (and Rover) a hand up rather than a hand out. With lower expenses, there's a good chance that they'd be able to save enough for a down payment on their own home in the not-too-distant future - but not until they're ready.

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